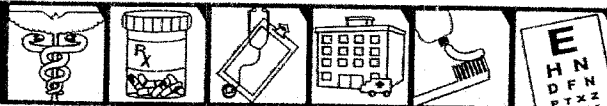


2011 Segal Health Plan Cost Trend Survey

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Medical and Prescription Drug Trend Rates for 2011 Projected to Be Similar to 2010 Rates

Most benefit plan cost trend rates for 2011 will remain unchanged from 2010, according to forecasts compiled in the 2011 *Segal Health Plan Cost Trend Survey*. The Segal Company's fourteenth annual survey of managed care organizations (MCOs), health insurers, pharmacy benefit managers (PBMs) and third party administrators (TPAs).¹ Trend forecasts for 2011 preferred provider organizations (PPOs)/point-of-service (POS) plans are slightly higher than last year: 0.6 percentage points for those that require referrals by primary care physicians for specialty services (gatekeeper feature). High-deductible health plans (HDHPs) and indemnity plans are expected to see slightly lower cost trends in 2011. The projected trends for 2011 reflect the additional expected costs plan sponsors face to comply with the Affordable Care Act, the health care reform law enacted in 2010.²

More Survey Highlights

Other notable findings from this year's survey include:

- Similar to findings in recent years, all 2011 medical plan types are

projected to experience cost trends that are more than eight times higher than the consumer price index for all urban consumers (CPI-U), which was 1.2 percent as of July 2010. In addition, trend projections are more than five times higher than the annual increase in average hourly earnings, which was 1.8 percent as of July 2010.³

- In 2011, prescription drug trends (for retail and mail order combined) are forecasted at 9.2 percent for active participants and early retirees. Prescription drug trend projections have remained below 10 percent for the last three years.
- Projected trend rates for Medicare Advantage (MA) health maintenance organizations (HMOs) are expected to drop in 2011 to 7.0 percent from the 2010 forecasts of 7.7 percent.
- MA PPO trend rates are expected to be 6.4 percent in 2011.
- Price inflation for inpatient hospital stays is the largest component of overall plan cost trend.
- In 2011, trend rates for fixed-scheduled dental plans and dental-maintenance organizations (DMOs) are both estimated to decrease, by 0.8 and 0.5 percentage points, respectively. This decline is a reversal of the 2010 projections in which both types of coverage were forecasted to increase by 1 percentage point and 0.5 percentage points, respectively.

"The projected trends for 2011 reflect the additional expected costs plan sponsors face to comply with the Affordable Care Act, the health care reform law enacted in 2010."

- Projected trend rates for PPOs and POS plans combined show regional variations. Similar to 2010 findings, the lowest trend rates are expected in the Midwest region: 9.8 percent. The highest trend rates are forecasted for the Northeast and the West: 11.2 percent.

What is Trend?

Trend is a forecast of per capita *claims cost* that takes into account various factors, such as price inflation, utilization, government-mandated benefits, and new treatments, therapies and technology. Although there is usually a high correlation between a trend rate and the actual cost increase assessed by a carrier, trend and the net annual change in plan costs are *not* the same. Changes in the costs to plan sponsors can be significantly different from projected claims cost trends, reflecting such diverse factors as group demographics and changes in plan design and participant contributions.

¹ For information about the survey participants, see the box on the last page of this report.

² The Affordable Care Act is the shorthand name for the Patient Protection and Affordable Care Act. All Segal information about health care reform is accessible from the following Web page: www.segalco.com/health-care-reform

³ These statistics, both of which were released on August 13, 2010, were the most recent available at the time this survey report went to press.

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Table 1 below summarizes the key findings.

This year, Segal asked the survey respondents to project the cost impact on plan trend of compliance with the Affordable Care Act. As shown in Graph 1, an overwhelming majority of respondents (78 percent) indicated that the impact on plan cost trend would be an additional increase of 1.1 percent or more. The projected trends shown in Table 1 may reflect incremental cost increases for complying with the Affordable Care Act.

In addition to compiling forecasted trend rates, the survey looks at

historical trend rates. As shown in Graph 2 and the second graph of the supplement to this survey report (referenced in the first footnote of Graph 2), after several years of declining trends, it appears that 2008 was the bottom of a downward pattern, with cost trend rates returning to an upward direction beginning in 2009.

Trend Ranges

Table 2 on page 3 shows trend *ranges* for medical PPO coverage and retail prescription drug carve-out coverage.

One-third of survey respondents projected open-access PPO trend rates to be under 10 percent for 2011. This

represents an increase of 1 percentage point over the 2010 survey results (32 percent). In 2011, the percentage of survey respondents projecting open-access PPO trend rates to be under 10 percent is noticeably greater than four years ago (19 percent in 2007 and 33 percent in 2011). The majority of respondents (63 percent) forecasted trend rates in the range of 10-14.9 percent, and 4 percent of respondents expect rates in the range of 15 to 19.9 percent for 2011.

Similar to findings in recent years, more than half of the survey respondents (56 percent in 2011 and 57 percent in 2010) reported projected prescription drug trend rates of less than 10 percent. Over the last five years, the percentage of survey respondents projecting prescription drug carve-out trend rates to be under 10 percent has almost doubled (up from just 30 percent in 2007). In 2011, no respondents reported

"Over the last five years, the percentage of survey respondents projecting prescription drug carve-out trend rates to be under 10 percent has almost doubled."

Table 1: Projected Medical, Prescription Drug, Dental & Vision Trends: 2010 & 2011

	2010 Projected		2011 Projected	
	(without Rx)	(with Rx)	(without Rx)	(with Rx)
Medical (Actives & Retirees < Age 65)				
Fee-for-Service (FFS)/Indemnity Plans	13.3%	12.5%	12.7%	12.0%
High-Deductible Health Plans (HDHPs)**	11.9%	11.3%	11.7%	11.2%
Open-Access Preferred Provider Organizations (PPOs)/Point-of-Service (POS) Plans***	10.8%	10.5%	11.0%	10.6%
PPOs/POS Plans (with PCP Gatekeepers)	10.6%	10.3%	11.2%	10.8%
Health Maintenance Organizations (HMOs)	10.2%	10.0%	10.2%	10.0%
Medical (Retirees Age 65+)				
Medicare Advantage (MA)**** FFS or PPOs*****	9.8%	9.5%	6.4%	7.0%
MA HMOs	7.7%	8.2%	7.0%	7.4%
Prescription Drug (Rx) Carve-Out*****				
Actives & Retirees < Age 65		9.1%		9.2%
Retirees Age 65 +		9.1%		8.2%
Dental				
Scheduled Plans		5.6%		4.8%
FFS/Indemnity Plans		6.2%		6.6%
Dental Provider Organizations (DPOs)		5.5%		5.5%
Dental Maintenance Organizations (DMOs)		4.7%		4.2%
Vision				
Scheduled Plans		3.7%		3.2%
Reasonable & Customary (R&C) Plans		4.1%		3.5%

* Trend projections were derived by proportionally blending medical trends and freestanding prescription drug trends.

** HDHPs are defined as those plans where the deductible is at least the minimum health savings account (HSA) level required by the Internal Revenue Service (\$1,200 single, \$2,400 family in 2011).

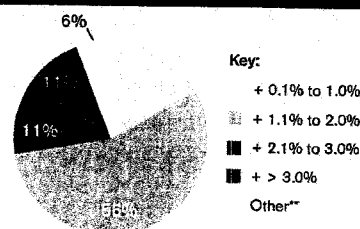
*** Open-access PPO/POS plans are those that do not require a primary care physician (PCP) gatekeeper referral for specialty services.

**** MA plans, part of the Medicare program, can be FFS plans, PPOs, HMOs, or special-needs plans.

***** The 2010 survey captured MA FFS data. The 2011 survey captured MA PPO data.

***** Prescription drug carve-out data was captured for retail and mail-order delivery channels combined.

Graph 1: Projected Overall Cost Impact on 2011 Trend of Compliance with the Affordable Care Act, by Percentage of Survey Respondents*



* This data reflects responses from 21 of the health insurers, HMOs and TPAs that participated in the survey. The total exceeds 100% due to rounding. None of the survey respondents selected "neutral" as their expected cost impact.

** Most of the organizations that responded "other" to this survey question did so because the data was not available at the time their survey responses were submitted.

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Table 2: Projected Trend Ranges for PPOs & Retail Rx Network Carve-Out Coverage: 2007 – 2011

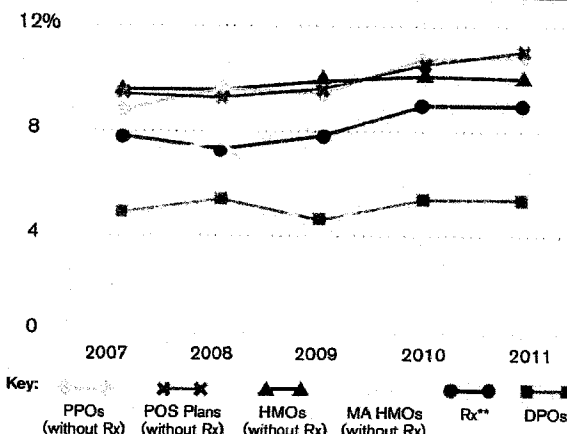
	Percentages of Respondents*				
	2007 Survey	2008 Survey	2009 Survey	2010 Survey	2011 Survey
PPOs (without Rx)					
< 10%	19%	24%	29%	32%	33%
10-14.9%	78%	76%	71%	64%	63%
15-19.9%	3%	0%	0%	4%	4%
≥ 20%	0%	0%	0%	0%	0%
Average	11.6%	10.6%	10.6%	10.8%	11.0%

Retail Rx Carve-Out**					
< 10%	30%	31%	54%	57%	56%
10-14.9%	53%	62%	46%	43%	44%
15-19.9%	16%	7%	0%	0%	0%
≥ 20%	0%	0%	0%	0%	0%
Average	11.9%	10.7%	9.8%	9.1%	9.2%

* Some totals do not equal 100% due to rounding.

** For both the 2010 and 2011 surveys, prescription drug carve-out data was captured for retail and mail-order delivery channels combined.

Graph 2: Selected Medical, Rx Carve-Out & Dental Trends*: 2007 – 2011



* All trends are illustrated for actives and retirees under age 65, except for the MA Plans. 2010 and 2011 are projected trends (all other trends are actual). (A graph comparing 2010 and 2011 projected trends to actual trends for 2002 through 2009 is available on the following page of Segal's Web site: <http://www.segalna.com/publications/surveysandstudies/2011trends/survey-supplement.pdf>)

** Prescription drug data for 2007 only reflects retail. For 2008–2011, prescription drug retail and mail-order delivery channels are combined.

projected prescription drug trend rates of 15 percent or more, whereas 16 percent of the respondents forecasted this trend range just four years ago.

Trends for Active Participants & Retirees

In addition to the key findings already noted, Medicare medical plan trend rates for retirees age 65 and older are projected to decrease in 2011, and the projected medical plan trend rates for active participants and early retirees are higher than for retirees age 65 and older. Additional notable findings about trends for both groups include the following:

- MA PPO trend rates are projected at 4.6 percentage points below PPO trends for active participants and early retirees. MA HMO trend rates are projected at 3.2 percentage points below HMO trends for active participants and early retirees.
- In 2011, the forecasted combined retail and mail-order prescription

drug trend rate for active participants and early retirees is expected to be relatively similar to the 2010 forecast (only 0.1 percent higher). In contrast, the expected retail and mail-order prescription drug trend rate for retirees age 65 and older is 8.2 percent for 2011, which represents a 0.9 percentage-point decline over last year's trend rate for this group.

Graph 2 shows selected trends from the last five surveys (actual trends for 2007-2009 and projected trends for 2010 and 2011). Most types of coverage are projected to remain relatively stable from 2010 to 2011. Two notable exceptions are the POS plans, which are expected to increase 0.6 percentage points, and the MA HMOs, which are forecasted to drop 0.7 percentage points.

Graph 2 and the second graph of the supplement to this survey report show actual trend rates for 2009 increasing for POS plans, HMOs and prescription drug plans. These

increases may signal an end to the declining trends rates generally experienced over the last several years.

Trend Components

As was the case for the last several years, price inflation for services and supplies continues to be the biggest element of overall medical plan trend. In 2011, price inflation will account for nearly two-thirds of overall medical plan cost trend.

The survey also examined 2011 medical trends by service type. Table 3 on page 4 compares that data to similar data collected last year. Hospital cost trends are forecasted to exceed all other elements of medical benefit services. Consistent with 2010 forecasts,

"As was the case for the last several years, price inflation for services and supplies continues to be the biggest element of overall medical plan trend."

price inflation is projected to remain relatively high for hospital services (e.g., 71 percent of total hospital benefit cost increases driven by price inflation) while utilization is expected to remain at around 2.8 percent. In contrast, price inflation for physician services is expected to decrease in 2011 by 0.6 percentage points, while utilization trends are forecasted to remain at around 4.5 percent.

Price inflation and utilization components of prescription drug trend are not published for 2011, due to a limited sample size. However, one noteworthy finding from the limited data suggests that the projected brand-drug price inflation component is trending at over 10 percent. This data reinforces the need to move utilization to generic drugs when possible, where price inflation is projected to be significantly lower at under 4 percent.

The 2011 trend rate for specialty/biotech drugs, a segment of brand-name drugs, is expected to be 17.4 percent, representing a 0.4 percentage-point drop over the 2010 trend rate (17.8 percent). Specialty drug trend is forecast to be nearly double the aggregate prescription drug trend. It will continue to drive aggregate prescription drug trend rates because, as new specialty drugs are released and

in specialty/biotech trend rates based on their participant populations.

Accuracy of Projections

To assess the accuracy of projections, Segal compared the average 2009 trend forecasts by national and regional insurers, MCOs, PBMs and TPAs for group medical, prescription drug benefit and dental plans to the actual average trend rates experienced by the health plans covered by those organizations for the same 12-month period, as reported by survey respondents. Comparing past projections to actual increases generally reveals that insurers and PBMs tend to make conservative projections for cost increases. Those forecasts are generally higher than the actual experience. However, forecasters are becoming more accurate in their projections. For example, the 2009 actual claim trend rates for HMOs and DMOs were within 0.2 percentage points of the initial projection for that year. Projections for PPOs and POS plans were within 1.1 percentage point of actual results for 2009. This comparison is shown in Table 4.

It should be noted that the accuracy of underwriter projections is subject to a natural lag in the underwriting cycle. In periods where costs are

decelerating, forecasters will tend to overestimate trends. Similarly, when costs are accelerating, trend projections will generally be underestimated. Accuracy of trend assumptions is best measured by comparing projected trend to actual trend over multiple years. Graphs 3 and 4 on page 5 illustrate the significant but declining variances between trend forecasts versus actual trends experienced in 2005 through 2009 for open-access PPOs and prescription drug plans, respectively.

Table 4: Comparison of 2009 Projected Trends to 2009 Actual Trends

	Projected	Actual
Medical		
(Actives & Retirees < Age 65)		
	(without Rx)	
FFS/Indemnity Plans	13.2%	11.8%
HDHPs	10.8%	11.4%
Open-Access PPOs/POS Plans	10.6%	9.5%
PPOs/POS Plans (with PCP Gatekeepers)	10.4%	9.7%
HMOs	10.0%	10.2%
Medical		
(Retirees Age 65+)		
	(without Rx)	
MA PPOs	8.2%	6.2%
MA HMOs	7.1%	4.0%
Rx Carve-Out		
(Actives & Retirees < Age 65)		
Retail Network	9.8%	7.9%*
Mail Order	9.4%	
Rx Carve-Out		
(Retirees Age 65+)		
Retail Network	9.1%	7.8%*
Mail Order	9.3%	
Dental		
Scheduled Plans	4.6%	4.4%
FFS/Indemnity Plans	6.9%	6.2%
DPOs	5.9%	4.7%
DMOs	4.2%	4.0%
Vision		
Scheduled Plans	3.6%	1.8%
R&C Plans	4.9%	2.1%

Table 3: Components of 2010 & 2011 Projected Trends by Service Type

Trend Component	Hospitals*		Physicians*		Rx	
	2010 Survey	2011 Survey	2010 Survey	2011 Survey	2010 Survey	2011 Survey**
Price Inflation	8.3%	8.5%	3.7%	3.1%	6.4%	N/A
Utilization	2.9%	2.8%	4.6%	4.5%	2.4%	N/A
Total Trend***	11.5%	12.0%	8.4%	8.2%	9.1%	N/A

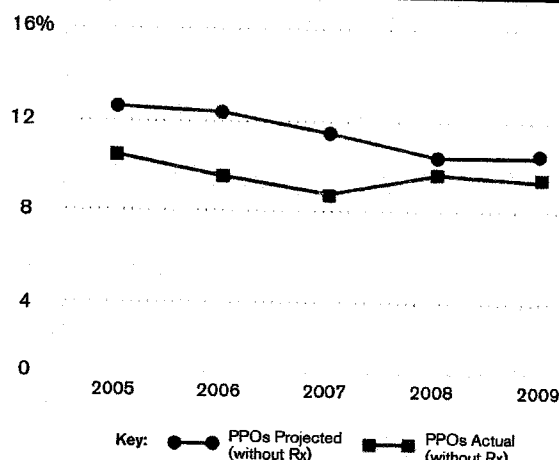
* Hospital and physician trends are for open-access PPO plans.

** For 2011, there was not enough valid data to publish the breakout of components for prescription drug trend.

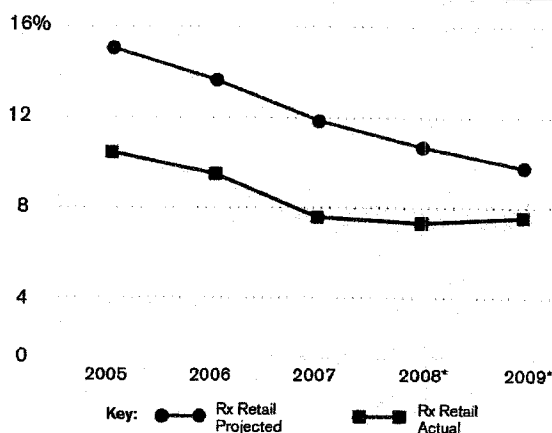
*** The components do not add up to the totals because there are other components of trend not illustrated, reflecting such factors as impact of cost-shifting, technology changes and drug mix. Also, not all participants provided a breakdown of trend by component.

* The 2011 survey captured prescription drug carve-out data for retail and mail-order delivery channels combined for 2009 actual trends.

Graph 3: Comparison of Projected to Actual Trends for PPOs for Actives & Retirees under Age 65: 2005-2009



Graph 4: Comparison of Projected to Actual Trends for Retail Rx Carve-Out Coverage for Actives & Retirees under Age 65: 2005-2009



* Actual trend for 2008 and 2009 reflects retail and mail-order delivery channels combined.

The following are the most notable findings about the accuracy of trend projections:

- Actual trend rates in 2009 for MA HMOs (4.0 percent) were significantly lower than forecasted (7.1 percent), representing a 3.1 percentage-point gap between the rates.
- Actual prescription drug trend rates continue to be lower than forecasted. However, 2009 actual claim trend results for prescription drugs were closer to forecasted trends than in prior surveys. The differential between the 2009 projected and actual prescription drug trend is 1.9 percentage points. In 2008, that differential was 3.3 percentage points.
- For all dental and vision coverage lines surveyed in 2009, each projected trend rate was higher than the actual claim trend.

Commentary & Outlook

Although most 2011 forecasted health plan cost trends are expected to remain relatively similar to current levels, they continue to significantly

outpace increases in both general inflation and average weekly earnings. Maintaining affordable health care coverage for workers and their dependents continues to be a challenge for plan sponsors, especially those that operate in industries that are still struggling to recover fully from the recent recession. Moreover, many plan sponsors may be approaching a limit on their ability to share cost increases with participants.

Plan sponsors are focusing on cost-management strategies that both mitigate increases and improve the overall health and well-being of their plan's population. Investments in wellness, care management, value-based designs,⁴ data mining and deeply discounted provider networks will continue to play a major role in keeping cost trends down.

In addition to implementing these and other cost-management strategies, plan sponsors will need to address new rules and requirements as mandated under the Affordable

"Plan sponsors are focusing on cost-management strategies that both mitigate increases and improve the overall health and well-being of their plan's population."

Care Act. Various requirements for new plans and "grandfathered"⁵ plans have confounded many plan sponsors for 2011. Several plan sponsors have had to rethink plan design strategies and changes as they digest the implications of preserving their grandfathered status. As interim final regulations and guidance on the law are issued, plan sponsors are addressing its implications and impact on their costs.

The following text summarizes how plans are responding to certain provisions of the Affordable Care Act:

- The law requires coverage of adult dependent children to age 26.

⁴ Value-based designs are those that encourage the use of providers that provide high-quality services at a relatively low cost.

⁵ Under the Affordable Care Act, "grandfathered" plans are those in existence on March 23, 2010. Under certain circumstances, plans can lose their grandfathered status.

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Some plan sponsors are delaying implementing the coverage expansion until they are required to do so, while others are implementing this mandate early. Some plans are building the additional dependent costs into future participant contributions, to the extent permitted under the new rules. Others are considering requiring that adult children do not have access to other employer sponsored health plan coverage.

- Sponsors of most plans that cover pre-Medicare-eligible retirees are electing to file for the retiree reinsurance subsidy program. Savings from this temporary federal government fund could be equal to more than 20 percent of a plan's total costs for early retirees.
- Although Medicare Advantage plans trends are predicted to be relatively modest for 2011, payment cutbacks to private insurers by the Centers of Medicare & Medicaid Services (CMS) starting in 2012 could result in significantly higher premium renewal rates to beneficiaries to make up the lost income from CMS.

"The long-term impact of the Affordable Care Act on plan sponsors' future health benefit plan cost trends is unclear."

- The law prohibits lifetime dollar limits. Plan sponsors can estimate the financial impact of eliminating lifetime dollar limits, craft plan design strategies to offset cost increases resulting from the removal of limits, review the merits of self-funded plans' stop-loss coverage, and assess the adequacy of self-funded plans' reserves.

The Affordable Care Act is expected to add to cost trend rates, at least in the near term. However, the long-term impact of the Affordable Care Act on plan sponsors' future health benefit plan cost trends is unclear. The following are among the key questions that cannot yet be answered:

- How will the reduction in uncompensated care influence future provider claims?
- Will the state insurance exchanges and new insurance reforms translate into more stable long-term premiums?
- How will the investment in wellness benefits, community clinics and

comparative-effectiveness research affect health plan utilization patterns and, ultimately, costs?

Regardless of whether they are promoting better overall health for plan participants or implementing practical solutions to comply with the Affordable Care Act, plan sponsors must remain vigilant in their approach to containing health plan costs. Plan sponsors should continue to play an active role in balancing the needs of plan participants and the demands of the federal health care reform law in order to combat escalating health costs while providing financially sustainable, high-quality health care.



For assistance with health care cost management strategies, contact your Segal consultant or the nearest Segal office. A list of Segal offices can be accessed from the second hyperlink in the dark blue box below.

The Survey Participants

The 2011 Segal Health Plan Cost Trend Survey was conducted in June of 2010. Survey participants were asked to provide the trend factors they will be applying to historical claims to predict expected claims for 2011. Segal received more than 60 responses to the survey. The following participants agreed to disclose their names: Aetna, Altius Health Plans, Amerihealth of New Jersey, Anthem Blue Cross of California, Anthem Blue Cross and Blue Shield of Ohio, Arkansas Blue Cross and Blue Shield, Assurant Employee Benefits, Blue Cross and Blue Shield of Illinois, Blue Cross and Blue Shield of Kansas, Blue Cross and Blue Shield of New Mexico, Blue Cross and Blue Shield of Oklahoma, Blue Cross and Blue Shield of Texas, Blue Cross and Blue Shield of Massachusetts, Blue Cross & Blue Shield of Rhode Island, Blue Shield of California, BlueCross and BlueShield of Tennessee, Care-Plus Dental Plans, Inc., Capital District Physician's Health Plan, CareFirst BlueCrossBlueShield, CIGNA, ConnectiCare, Inc., CVS Caremark, Delta Dental of Arizona, Delta Dental of Colorado, Delta Dental of Illinois, Delta Dental of Massachusetts, Delta Dental of Michigan, Delta Dental of New Jersey, Delta Dental of New York, Delta Dental of Virginia, Delta Dental of Wisconsin, Employers Dental Services, Excellus Health Plan, Inc., Express Scripts, Inc., Group Health Cooperative, Group Health Incorporated (GHI), Harvard Pilgrim Healthcare, Health Alliance Medical Plans, Health Net, Inc., HealthTrans LLC, Horizon Blue Cross Blue Shield of New Jersey, Humana, Inc., informedRx, an SXC Health Solutions, Inc., company, Kaiser Foundation Health Plan, Lincoln Financial Group, Medco Health Solutions, Inc., Medical Mutual of Ohio, Nippon Life Insurance Company of America, Prescription Solutions, Inc., Security Health Plan of Wisconsin, Inc., The ODS Companies, Trustmark Group Insurance and UnitedHealthcare.

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